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Agenda item 8

DRAFT REPORT OF THE STANDING COMMITTEE ON COMMODITIES ON ITS FOURTH SESSION

Rapporteur: Mr. Tang Yufeng (China)

INTRODUCTION AND ITEMS 3, 4 and 6 (continued)

Addendum

Speakers:

Islamic Republic of Iran
China (paras. 44-46, 54)
Chairperson
United States (paras. 52, 62)
Canada (paras. 53, 61)
United Kingdom
Netherlands
Japan
Secretariat (paras. 58, 70)
Vice-Chairman Iron Ore
France
Mexico
Chairman Privatization Group
Argentina

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Friday, 10 November 1995 at the latest** to:

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INTRODUCTION

(continued)

Opening statements (continued)

41. The representative of the **Islamic Republic of Iran** said that debates surrounding commodities had undergone substantive changes since the birth of UNCTAD, when the debates had centred round developing countries' concerns about declining commodity prices and the deterioration in the terms of trade of commodity-dependent countries. Since then, immense technological changes and new themes, such as management of natural resources and environmental considerations, had added further to the complexity of the debates and of the solutions to problems. The declining shares of developing countries in commodity markets, the weak linkages with consumers and the unavailability of trade instruments often left developing countries at a disadvantage with regard to adding value to their products. There was thus a need to strengthen market- related instruments and frameworks for the participation of micro-entities in the commodity area, and in that connection, the establishment of commodity exchanges in developing countries could prepare the ground for increased participation of enterprises. Technical assistance by the UNCTAD secretariat and concentration of its work on development-related commodity trade issues were needed. Commodity diversification was important not only for promoting exports but also for import substitution, especially in the case of foodstuffs and agricultural raw materials. Any gradual removal or reduction of tariff preferences for developing countries in the case of a number of commodities would increase their vulnerability as regards comparative advantages.

42. There had been much discussion on the internalization of environmental costs and, while such costs existed and must be borne by someone, there were major disparities in the environmental implications of the production, trade and consumption of the various commodities. Whether within national boundaries or globally, the cumulative long-term effects would be universal. Damage to the natural environment as a result of exploitation of natural resources should be factored into prices through proper multilateral negotiations and agreements, including multilateral trade dialogues.

43. Finally, document TD/B/C.1/29 discussed the use of synthetic substitutes without raising the issue of their adverse environmental effect and the problems of waste proposal. There were also traces of protectionist tendencies in the debates, especially in reference to the introduction of a tax on energy consumption. More attention should therefore be given to problems of liberalizing the world commodity economy.

44. The representative of **China** said that, since UNCTAD VIII, the Standing Committee on Commodities had served as a forum for the consideration of important issues in the field of commodities and, with the assistance of the secretariat, it had done important work which had played a positive role in providing guidance to developing countries for the formulation of their respective commodity policies. Moreover, UNCTAD's inputs had contributed to the negotiation and implementation of the relevant commodity agreements in the Uruguay Round.

45. Though the Uruguay Round Agreements had improved the world trade environment and would promote commodity trading, developing countries were still facing considerable difficulties in their commodity exports, while the expected goals of reducing tariffs and non-tariff barriers were yet to be reached. He expressed the hope that developed countries would fulfil their commitments under the relevant Uruguay Round Agreements by taking effective measures with a view to redressing trade distortions and facilitating developing countries' participation in the world trading system.

46. As much remained to be done in the area of commodities, his delegation supported in principle the programme for future work contained in document TD/B/CN.1/31, especially with regard to market access, commodity diversification and technical assistance, and stressed the need to improve the situation in the area of producer/consumer cooperation, since cooperation projects proposed by producing countries had been obstructed in every possible way.

Chapter I

EXAMINATION OF THE MANNER IN WHICH PRICES OF NATURAL COMMODITIES AND THEIR SYNTHETIC COMPETITORS COULD REFLECT ENVIRONMENTAL COSTS, TAKING INTO ACCOUNT POLICIES RELATING TO THE USE AND MANAGEMENT OF NATURAL RESOURCES AND SUSTAINABLE DEVELOPMENT

(Agenda item 3)

47. For its consideration of this item, the Standing Committee had before it the following document:

> "Sustainable development and the possibilities for the reflection of environmental costs in prices" - report by the UNCTAD secretariat (TD/B/CN.1/29).

48. In addition, the Committee heard two guest-speakers, Ms. Kathleen Anderson, Director of the Mining and Environment Institute, Centre for Resource Studies, Queen's University, Canada, who spoke about the possible applications of the sustainability concept to the mining industry; and Mr. Theodore Panayotou, Institute Fellow and Programme Director of the International Environment Programme of the Harvard Institute for International Development, United States of America, who addressed the issue of the interrelationship between internalization and competitiveness.

Action by the Standing Committee

[To be completed]

Chapter II

ANALYSIS OF THE EVOLUTION OF PRICES AND TRADE OF COMMODITIES TO BE EXPECTED IN THE LIGHT OF THE RESULTS OF THE URUGUAY ROUND, WITH PARTICULAR EMPHASIS ON THEIR IMPLICATIONS FOR DEVELOPING COUNTRIES, INCLUDING THEIR DIVERSIFICATION PROSPECTS

(Agenda item 4)

49. For its consideration of this item, the Standing Committee had before it the following document:

"The Uruguay Round and international commodity trade and prices" - report by the UNCTAD secretariat (TD/B/CN.1/30, and Add.1-2).

50. In addition, the Committee heard three guest-speakers: Mr. Richard Blackhurst, Director of the Research Division of the World Trade Organization (WTO), who gave an overview of the results of the Uruguay Round Agreement in the field of commodities; Mr. James Greenfield, Chief of the Commodity Policy and Projections Service of FAO, who presented the results of the projections undertaken by his organization on the impact of the Uruguay Round on agriculture; and Mr. Philip Crowson, Chief Economist of Rio Tinto Zinc (RTZ), who made a presentation on the long-term outlook for production, consumption and international trade in minerals and metals, in the light of the Uruguay Round agreement.

Action by the Standing Committee

[To be completed]

Chapter III

REPORTS OF THE SUBSIDIARY ORGANS OF THE STANDING COMMITTEE

(Agenda item 5)

A. Report of the Intergovernmental Group of Experts on Tungsten on its third session

51. The **Chairperson** recalled that the Intergovernmental Group of Experts on Tungsten had adopted a decision (TD/B/CN.1/27, para. 25) remitting "to the fourth session of the Standing Committee on Commodities the determination of the date for the fourth session of the Group".

52. The representative of the **United States** said that, for reasons beyond the control of the UNCTAD secretariat, the Intergovernmental Group of Experts on Tungsten no longer performed its function of adding transparency to the tungsten market, and efforts to revive the Group had been unsuccessful. He suggested that the Group be suspended until such time as members felt it would be useful to resume its activities. If the Group could not be suspended or dissolved, his country would have great difficulty in agreeing to establish any further groups on commodities. Working groups on specific issues should be established only if there was adequate support for them, and their existence could be justified only as long as there was sufficient interest by members in the continuation of their activities.

53. The representative of **Canada** supported the views expressed by the representative of the United States. There had been a lack of interest on the part of a number of countries in the Group's work, and he believed that the Group should be suspended. If the Group was needed in the future, it could be reactivated. UNCTAD must show its willingness to change and adjust, and it must concentrate its limited resources on its main functions and priorities.

54. The representative of **China** said that his country had not participated in the third session of the Group, and it reserved its right to make further comments on the Group's report.

55. The representative of the **United Kingdom** fully endorsed the views expressed by the United States and Canada.

56. The representative of the **Netherlands** associated himself with the representatives of the United States and Canada, suggesting that any consideration of future activities of the Group be postponed until after UNCTAD IX.

57. The representative of **Japan** supported the views expressed by the representative of the United States.

58. The **Officer-in-charge of the Commodities Division**, responding to a question by the representative of **France** as to whether statistics on tungsten had been collected and disseminated as requested by the Group and as to the resources devoted to this activity by the secretariat, replied that statistics had been collected and disseminated and a market review of tungsten had been completed. One professional staff member had been engaged in the task.

Action by the Standing Committee

59. The Standing Committee took note of the report of the third session of the Intergovernmental Group of Experts on Tungsten (TD/B/CN.1/27-TD/B/CN.1/TUNGSTEN/11) and recommended to the Trade and Development Board that it suspend the activities of the Group until the Board could determine that there was adequate support to re-initiate it in the future.

B. Reports of the Intergovernmental Group of Experts on Iron Ore on its third and fourth sessions

60. The **Vice-Chairman-cum-Rapporteur of the Intergovernmental Group of Experts on Iron Ore at its fourth session** provided the Standing Committee with an oral report on the fourth session of the Group of Experts. [1] He emphasized that, as the Intergovernmental Group of Experts had become a well established event for the iron-ore business community, its sessions had been attracting a large number of experts from industry and trading companies involved in the iron ore international scene. In the course of its session, Government representatives, industry experts and iron ore companies had reaffirmed that the work of the Intergovernmental Group of Experts on Iron Ore was unique and extremely useful to producers and consumers, and they had expressed their support for such work. It had been recalled that the

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[1] The report of the Intergovernmental Group of Experts on its fourth session was not available for the session of the Standing Committee but was subsequently issued in document .....

statistical work and the exchange of views that had taken place within the Group was an important contribution to increasing market transparency. Appreciation had been expressed for the quality of the work done by the UNCTAD secretariat, the timely collection and dissemination of statistics and the accurate assessment of the current market situation.

61. The representative of **Canada** expressed appreciation for the work of the Intergovernmental Group of Experts on Iron Ore and noted that his Government had made a contribution of $5,000 for its statistical activities, which was a concrete expression of its belief in the usefulness of the Group.

62. The representative of the **United States** said that industry and government officials agreed that the Group was effective and they supported the continuation of its activities.

63. The representative of **France** said that the Group was useful and involved relatively low costs. Consideration should be given to the possibility of reducing the duration of the Group's sessions from three to two days.

64. The representative of **Mexico** said that the future organization of UNCTAD's intergovernmental machinery was to be the subject of reviews by the Trade and Development Board.

Action in the Standing Committee

65. The Standing Committee took note of the report of the Intergovernmental Group of Experts on Iron Ore on its third session (TD/B/CN.1/21-TD/B/CN.1/IRON ORE/15) and of the oral report on the work of the Intergovernmental Group of Experts on Iron Ore on its fourth session.

Chapter IV

REVIEW OF THE WORK PROGRAMME OF THE STANDING COMMITTEE WITH SPECIAL EMPHASIS ON THE PREPARATIONS FOR UNCTAD IX

(Agenda item 6)

66. Under this agenda item, the Standing Committee had before it the following documentation:

> "Review of the work programme of the Standing Committee, with special emphasis on the preparations for UNCTAD IX - Report by the UNCTAD secretariat" (TD/B/CN.1/31).

Action by the Standing Committee

[To be completed]

Chapter V

OTHER BUSINESS

(Agenda item 7)

A. Report of the Ad Hoc Group of Experts on State Participation and Privatization in the Minerals Sector

67. The **Chairman of the Ad Hoc Group of Experts on State Participation and Privatization in the Minerals Sector** gave an oral report on the meeting of the Group, held from 26 to 27 October 1995. He praised the high standard of the discussions and of the presentations made by the experts, who had come from a wide range of countries with diverse experiences. Some experts had reported on privatization exercises already completed, others on why state participation remained a preferred option, and still others on privatization challenges that they currently faced. The subject and timing of the meeting were directly relevant to the problems facing many countries with significant minerals sectors, including an increasing number of developing countries. He stressed the need for the outcome of the meeting to be brought to the attention of all those concerned in capitals, and for appropriate follow-up activities.

68. The representative of **Argentina** said that in their privatization efforts, many countries needed technical assistance from the international community and from UNCTAD in particular.

Action by the Standing Committee

69. The Standing Committee took note of the oral report of the Chairman of the Ad Hoc Group of Experts on State Participation and Privatization in the Minerals Sector (see annex ...).

B. Review of the current market situation and outlook

70. A **representative of the UNCTAD secretariat** introduced the "Review of the current market situation and outlook" (TD/B/CN.1/TUNGSTEN/12), prepared by the secretariat in response to a request by the Intergovernmental Group of Experts on Tungsten at its third session "that the secretariat pursue its collection and

dissemination of statistics on tungsten, and its review of the tungsten market" (TD/B/CN.1/27, para. 25).

Action by the Standing Committee

71. The Standing Committee took note of the report "Review of the current Market Situation and Outlook" (TD/B/CN.1/TUNGSTEN/12) prepared by the secretariat.

Chapter VI

ORGANIZATIONAL MATTERS

A. Opening of the session

72. The fourth session of the Standing Committee on Commodities was opened on 30 October 1995 by Ms. L. Wiedmer (Switzerland), Chairperson of the Standing Committee at its third session.

B. Election of Officers

(Agenda item 1)

73. At its 14th (opening) plenary meeting, on 30 October 1995, the Standing Committee on Commodities elected its officers as follows:

Chairperson:	Mrs. S.B.A. Syahruddin	(Indonesia)
Vice-Chairpersons:	Mr. S. Sia Bi	(Côte d'Ivoire)
	Mr. J. Bonagas D.	(Panama)
	Mr. N. Ugurlu	(Turkey)
	Mr. I. Vencel	(Slovakia)
	Mr. J.J. Yambao	(Philippines)
Rapporteur:	Mr. Tang Yufeng	(China)

C. Adoption of the agenda and organization of work

(Agenda item 2)

74. At the same meeting, the Standing Committee adopted the provisional agenda as circulated in TD/B/CN.1/28. The agenda for the fourth session therefore read as follows:

1. Election of officers

2. Adoption of the agenda and organization of work.

3. Examination of the manner in which prices of natural commodities and their synthetic competitors could reflect environmental costs, taking into account policies relating to the use and management of natural resources and sustainable development

4. Analysis of the evolution of prices and trade of commodities to be expected in the light of the results of the Uruguay Round, with particular emphasis on their implications for developing countries, including their diversification prospects

5. Reports of the subsidiary organs of the Standing Committee

6. Review of the work programme of the Standing Committee with special emphasis on the preparations for UNCTAD IX

7. Other business

8. Adoption of the report of the Standing Committee to the Trade and Development Board.

D. Adoption of the report of the Standing Committee to the Trade and Development Board

(Agenda item 8)

[To be completed]

Annex

REPORT OF THE CHAIRMAN OF THE AD HOC EXPERT GROUP ON STATE PARTICIPATION AND PRIVATIZATION IN THE MINERALS SECTOR

1. The **Chairman of the Ad Hoc Expert Group** said that the meeting of the Group, on 22 and 27 October 1995, had attracted a group of very senior, very experienced, articulate, and well-prepared participants who were truly experts and who had brought to the meeting diverse and interesting experiences from a wide range of countries: Bolivia, Kazakhstan, Zambia, Brazil, Poland, Chile, India, Morocco, Papua New Guinea, Peru, South Africa and the Russian Federation. Some had reported on privatization exercises already completed, others on why State participation remained a preferred option, and still others on privatization challenges that they were currently facing. They had discussed their experiences with each other and with other experts drawn from the fields of law, management, environment, finance and, perhaps most important, with real practitioners in the mineral industry. It was evident that the subject and the timing of the meeting were directly relevant to the problems facing many countries with a significant mineral sector - which would seem to include an increasing number of developing countries.

2. When all Governments were looking to reduce their levels of expenditure -his own Ministry in Canada had had its budget reduced by 57 per cent over three years - and when well-known institutions were being abolished - one only needed to recall the fate of the respected United States Bureau of Mines - it was absolutely essential that UNCTAD's activities respond to real needs in real ways. A number of questions must therefore be answered in trying to develop an overall assessment of the Experts Group meeting: Were the experts expert? Yes. Were different stakeholder views represented in the room? Yes. Was the expertise relevant to the subject? Yes. Was the subject relevant to actual public policy and economic decisions being faced by member States? Yes. Was the audience appropriate to the subject and experts present? Yes. Nineteen member States were in the room. For the ongoing debate on state participation and privatization, their presence was entirely appropriate. On the other hand, others were not present when they could have benefited. Would the advice, information and experience represented at the meeting be shared with, understood by and acted upon by the different authorities responsible for privatization? Some of those authorities were in the room and showed every sign of having profited from their experience. On the other hand, it was the responsibility of those present in Geneva to ensure that the results, documentation and contacts made available at the meeting were passed on to

capitals. On balance, it could not be said yet whether this criterium had been satisfied. If active steps were not taken to disseminate the results, the benefits of the meeting would be partly or even largely lost. And finally, did this activity take place in isolation, or was it part of a process that would take the process beyond the walls of UNCTAD? This was not discussed at the meeting, but the secretariat had indicated
that indeed this activity was not seen in isolation and other activities were envisaged.

3. In conclusion, the secretariat had reason to be pleased with the initiative. Objectively, however, the meeting could not be called an outstanding success. It could more properly be called an outstanding beginning. Whether a future assessment would confirm this initial positive judgement would depend on whether the policy insights discussed and personal contacts developed over the two days were used and built upon where it counted: in those States and capitals where the role of the state or the path to privatization were key public policy issues.

4. It had been difficult to reduce all the ideas and experiences presented at the meeting into just a few paragraphs; some important nuances were being lost, and some important ideas were perhaps being overlooked altogether. One important caveat: not all of the points reported on would be acceptable to all of the participants. Not all of the statements were necessarily applicable to every State or society. None of the experts had suggested that there was a single formula for privatization, only different approaches that worked best, or had the best potential for success, in different situations. That being said, the following points had emerged from the discussions and presentations of the Expert Group:

(a) State participation in the minerals sector has both a long history and, for some countries, a secure future. Where privatization is envisaged, the major challenge is to resolve the process in an economically efficient and socially equitable manner. In this regard, there is no one path to privatization.

(b) The Group of Experts, drawing on actual experiences, showed that there were compelling but differing reasons for the decisions taken or contemplated. In one case, minority equity participation was most appropriate even though it reduced the immediate financial benefits to the State. In another case, full State ownership is preferred in order not to divert from the private sector the immense amounts of capital required for the purchase of existing state assets; in this case, the decision was to allow the limited capital available to go towards the development of new deposits and the creation of new assets. In a third case,

existing State assets are being "capitalized" in such a way as to capture more successfully for the State and society the full market value of State assets as opposed to the book value of the assets.

(c) Regardless of the ownership structure, the transparency of the objectives of the enterprise are of central importance, as are the competence and integrity of the manager or owner. Moreover, whatever the path to privatization or continued State participation, the successful exploitation of the mineral assets will depend very much on the existence of a good legislative, administrative and regulatory framework and clear and enforced labour, legal, and environmental regimes.

(d) Privatization should not be undertaken simply to make up a short-term deficit or to pay off external debt. The rational for privatization must be based on long-term considerations, to benefit present and future generations; this is particularly important for non-renewable assets such as mineral deposits.

(e) Privatization is a complex and lengthy process. It must be seen in the context of the whole economy and include both macro- and micro-level considerations. It requires a dedicated, sustained commitment on the part of the State, supported and supplemented by professional advisors from different disciplines and sectors of the economy. The process is best done openly and with public involvement. But the final decision and the responsibility for the process still rests with the Government.

(f) Local communities largely or entirely dependent on the mineral activity are stakeholders in the privatization process and they should be involved. A mechanism or process needs to be in place to ensure that local communities benefit from the mineral resource and this mechanism should include planning for the future of the communities after the resource has been exhausted. This is particularly important when the resource may make only a minor contribution to the State treasury but lies at the heart of the regional economy.

(g) Environmental liabilities will inevitably be viewed differently from country to country, depending on national priorities. In any privatization process, the emphasis should be placed on expectations for present and future environmental management and standards. Assessing environmental damage caused by past practices can consume time and resources to little or no productive end.

(h) When privatization is undertaken on an economy-wide basis and involves thousands of enterprises of every imaginable size, such as is the case with the economies in transition, the process will inevitably differ from the case where a single entity is being privatized. However, the role of professional advice to support the political decision-making process and administrative implementation remains.

(i) Decisions regarding the role of the State, and the choices made concerning the degree and form of ownership, are ultimately political in nature. Because of this, and because there are economic and social consequences flowing from those decisions, there is almost always criticism and public debate surrounding every privatization or State participation decision. This is particularly true when the mineral asset in question is a central pillar of the national economy, or when it is the leading economic activity of a particular area. The political objective is nevertheless clear: it is to achieve the most economically efficient and most socially responsible exploitation and use of the natural resource base of the nation.